Sharpening the Competitive Edge

The Future of Treasury Technology

Technology has played a key role in shaping corporate treasury over the past few decades, but the best is yet to come. Bank of America's Dhiraj Bajaj, Head of Financial Institutions and Non-Bank Financial Institutions Sales, Asia Pacific, Global Transaction Services, and Chandana Thanthrige, Head of Financial Institutions and Transactional FX Product, Asia Pacific, Global Transaction Services, discuss how today's treasurers can move towards the digital future with confidence.

By **Tom Alford**,
Deputy Editor, TMI

As anyone familiar with Moore's Law will know, the pace of development and adoption of technology is fated to gather ever-greater momentum. Exploring the future possibilities of the digital domain is now an essential part of today's treasury role and it's clear that the best opportunities will be available to those who are engaging with progress now.

The adoption into treasury of appropriate technology has for some time been a matter of discussion, with Bajaj noting that the evolution of the function over the past decade or so has seen it gaining in complexity and strategic importance in all regions. "But in a region such as Asia, where businesses with a presence in multiple countries face a particularly fragmented regulatory environment, complexity has seen technology become an integral part of treasury operations."

Across the region's sectors, payments and collections processes continue to progress at different rates. With the shift from legacy to modern comes the challenge of aligning treasury activities with the growing demand for 24/7/365 operations led by other business functions, especially sales.

While Bajaj notes that his own client base of large FIs, banks, and non-bank FIs is still adapting, and have a limited need for out-of-hours payments itself, there is a mounting call for real-time payments within the wider ecosystems of these clients. For example, an insurance company that can take real-time non-card payments for the immediate issuance of new travel policies requires a treasury solution that can both receive and book such transactions from a range of clearing systems within the same time frame.

Adapt and thrive

For many more businesses now, these calls for all to keep up are part of the evolving challenge linked to changes in their underlying ecosystems. It's why pressure is mounting on treasurers to ensure real-time facilitation tools, such as APIs, are being deployed, even if in some cases the direct need is not apparent. The key point here, says Bajaj, is that treasurers are service providers to internal lines of business. "If the demands of the underlying business are changing, the treasury team needs to adapt too, to ensure those lines of business can compete in the market by providing the services that their customers demand. If it doesn't, treasury risks becoming a bottleneck and ultimately a constraint on growth."

The consumerisation of business processes, driven by customer demand for near-instant service, has seen cross-regional cash flows in APAC increase many times over, notes Thanthrige. "You can't manage that with people alone; you need technology too. And the better a business is equipped to manage rapid inflows and outflows in terms of cost, speed, and transparency, the more it is able to extract value from these 24/7 markets."

It's obvious that treasury technology will become increasingly important over the coming years, but Thanthrige warns that any system deployment must be aligned with the strategic aims of the lines of business. It's important to know that there is not one single solution that fits all needs emerging from all the new technology candidates for adoption by APAC treasuries. However, he notes, there are certain treasury functions that have risen further up the agenda in recent times, and that these may steer the course of action.

One of these is cash forecasting, its importance demonstrated by huge recent investments by Bank of America (BofA) in a number of tools designed to enhance clients' working capital management. The same applies to regional treasury or shared service centres (SSCs), with many expected by the lines of business they serve to be more efficient and cost-effective in handling payments and collections.

As individual challenges and opportunities emerge, so the broader technological landscape is shifting towards a more supportive composition. This is most notably seen with the SWIFT payments messaging infrastructure migrating to the ISO 20022 standard in November 2022. This, notes Thanthrige, creates a common language for payments data-formatting across the globe, ensuring enriched data can be provided between parties. "It's about connecting with banking partners in a more efficient way, with more rich and standardised data to deliver an end-to-end experience that entails a high level of automation," he comments.

Another potential game-changer for treasury is the deployment of AI within the realms of forecasting, says Bajaj. "Treasury expectations of banking partners to deliver a seamless real-time flow of data to drive improved reconciliations are shifting. Now the goal is tackling a more complex mix of local and cross-border payment flows. This calls on AI and other analytical tools to monitor huge pools of past data to detect often subtle shifts in behavioural patterns to enable better projection of future cash flow positions."

Technology has a strong role to play in the micromanagement of liquidity under current circumstances too, says Bajaj.

> *Treasury expectations of banking partners to deliver a seamless real-time flow of data to drive improved reconciliations are shifting.*

DHIRAJ BAJAJ

Head of Financial Institutions and Non-Bank Financial Institutions Sales, Asia Pacific, Global Transaction Services, Bank of America

With US Federal Reserve interest rate increases likely to continue, he explains that the opportunity cost for borrowings and idle cash balances on APAC regional currencies increases in line. "With low rates, those costs are not so much of an issue, but as rates creep higher and higher, treasury is going to need a laser-like focus on the efficient management of its working capital."

And as US interest rates rise, so FX rates may become a challenge for treasurers operating in APAC. With most domestic currencies depreciating against USD, firms reporting in USD will have to better manage their earnings in those currencies. For Bajaj, technology can assist treasury's understanding of its exposures, and support decisions around risk mitigation.

Blockchain has long been a solution without a specific aim. However, Bank of America, working with a leading Blockchain technology provider, is on the point of going live with a blockchain-based real-time cross-border payments solution. Over the past year it has been building digital, single-currency corridors between the US and a number of markets in Asia. This enables low-cost and transparent remittances. The aim is to cover multiple domestic currencies, with selected large local banks as facilitation partners.

CHANDANA THANTHRIGE

Head of Financial Institutions and Transactional FX Product, Asia Pacific, Global Transaction Services, Bank of America

This, notes Bajaj, is a direct response to the non-bank low-value payment service providers that have emerged in recent years. Importantly, he feels the new solution "moves away from 'blockchain as a concept', to 'blockchain as a rail facilitating real time cross border payments'". The scalability of the offering suggests it could easily become a 24/7/365 cross border payments option for smaller-value payment transactions, with the added attraction that the technology connects directly to the client's Bank of America account using multiple online channels.

Regulator role

In a dynamic and challenging economic environment, it is in part the role of regulators to help create a level playing field to ease the flow of business. In APAC there are a number of proactive regulators that are seeking to do just this, says Thanthrige. At the same time, there is a buoyant technology sector across the region that is bringing new solutions to market. "The need is to create a balance between giving treasurers secure options as they carry out their duties, while ensuring they are protected by the proper regulatory controls in each jurisdiction."

Bank of America is present in 12 countries in APAC, eight of which have currency controls. The challenge this presents to an international business with sizeable money movements is a key topic of discussion with the region's regulators, admits Thanthrige. This is why Bank of America is a member of most regional discussion groups, ensuring the voice of its corporate clients is heard, while offering its own thought leadership to the regulatory community.

Regulatory receptiveness to ideas and views from across the commercial spectrum is helping APAC progress. And by opening up to the views of a global bank such as Bank of America, with its footprint across APAC, EMEA, North America and LatAm, regional authorities can access and discuss new ideas and best practice from around the world.

Of course, changing the regulatory environment to facilitate the roll-out of new solutions, while protecting users, takes time. But with collaboration the guiding philosophy, Thanthrige says the speed of progress in APAC has picked up noticeably in the past few years.

While Bajaj cautions that not every regulator in the region is on the same page in terms of technology, he sees considerably more tech-driven dialogue now between stakeholders, with some authorities very open to cutting-edge ideas, especially around payments and the storage of value.

Indeed, with China having already launched its e-CNY in January 2022, and India's digital rupee launching in the 22/23 financial year, progressive APAC jurisdictions such as Singapore, Malaysia, and Australia, are already looking into the feasibility of multiple central bank digital currencies (mCBDCs) for cross-border payments.

Preparation and partnership

With foreign bank branches in multiple locations in APAC backed by its global footprint, the needs of Bank of America's multinational corporate clients seeking to build a presence in these markets can access our on-the-ground knowledge and experience, says Bajaj. With particularly complex needs in currency-controlled jurisdictions, he says "our presence gives us an edge when representing global client interests in these markets".

This was highlighted by the rapid roll-out of digitalisation programmes during the pandemic. "We were at the forefront, explaining to regulators, market by market, how, for instance, as a bank we no longer needed physical signatures to open and manage accounts because a secure digital solution used in other regions has already become the norm," Bajaj explains.

With technology development moving at pace – as Moore's Law insists – there are two key steps for treasurers to take to maintain forward momentum, says Bajaj. With most treasuries operating with minimal personnel, the drive for efficiency through technology, especially where centralisation is a core strategy, is not difficult to understand. But it is incumbent upon the treasurer "to ensure the whole treasury team is digitally inclined and savvy, and open to accepting and adapting to new processes and tools", he says.

With the delivery of new technologies, especially new banking platforms and core systems, often some training is

View the infographic that accompanies this article to discover additional treasury action points:

tiny.cc/uj1zuz

required, even for the most intuitive of interfaces. The second step proposed by Bajaj is therefore to encourage rapid adaptation to the new system so that the team can progress to leveraging the functionality offered, both as a discrete system and as part of the organisation's' wider technology infrastructure. Of course, as vendors and banks continue to develop their technologies, it is important for treasury to keep up with each iteration, especially as a major upgrade may be needed to access new tools.

With Bank of America capturing most of its core CashPro platform in a mobile environment, Bajaj says users able to combine these two steps will make the most of the switch to such a new environment. "In this and in many other cases, leveraging digitalisation boils down to attitude and skill set. If you have a forward-looking attitude and a team with the skill sets and readiness to adapt to and use these new tools, life will be much easier, especially in the current circumstances."

The switch to a technology-enhanced treasury operation may require a cultural shift, but for Thanthrige, the adoption of digitalisation by treasury also has to be viewed as a long-term investment, both financially and in terms of partnerships. "A key question is whether treasury wants to buy or build its technology response," he suggests. "But it also has to consider the importance of selecting the best partners for its journey – it need not be a solo flight – and for this it should select those with the most sustained investment in its solutions because this will ensure the longevity of its strategic and tactical responses."

Longer-term plans and partnerships enable treasury teams to focus on the elements that are relevant to them and to their business, and not become enmeshed in a constant uphill struggle to upgrade systems or find and replace partners and tools. But rather than relying on one partner for everything, working with a small group of technology partners enables treasury to avoid concentration risk, as it would from a financial perspective.

Thanthrige advises that due diligence around partner selection must ensure as far as is possible that those selected are sufficiently agile to be able to deliver the right solutions and upgrades at the right time. Agility may stem from the provider's openness to working with third parties, including fintechs, vendors and other FIs.

Looking to the future

With global events of the past few years demonstrating how dramatic change can quickly impact individual businesses, trading partners, supply chains, and even entire economies, digitalisation programmes have become a matter of survival for many.

Recent disruptions have accelerated the speed with which technology providers, including banks, have been able to deliver solutions. However, says Bajaj, treasurers need to keep pace to ensure that they are armed with the best tools for the job. This is not only about heading off challenges, but also about identifying and seizing opportunities as they arise. The learning curve is, by definition, on a continuous upwards sweep.

"The approach we take for our core clients is to invite them into thought-leadership sessions on technological change," he explains. As an example, the migration of SWIFT messaging to the ISO 20022 XML format referred to earlier has taken several years in the making. "We started our APAC client education programme at the beginning of the year, with more sessions planned before its formal launch in November, so that our clients have enough time to prepare their internal processes to benefit from the new technology."

With the enriched data that ISO 20022 roll out will offer, the work being carried out now with clients will help them form plans to remove typical payment friction points through, for example, the deployment of automated reconciliation tools.

Early learning, quicker results

"Early education gives some treasurers the opportunity to join pilot programmes with us, helping to build out an even more sustainable solution set," says Bajaj. Client engagement in major changes, such as SWIFT's XML roll-out, therefore helps to create solutions that have been tested in the real world, and which therefore have proven commercial value. It also reinforces stakeholder understanding that the legacy core systems that have underpinned operations for decades are now becoming not just obsolete but a risk both in terms of potential failures and in growth constraint.

The Bank of America team is open for early client consultation on significant changes to the digital environment. It enables forward planning, says Bajaj. With limitations on treasury technology budget and resources, an informed view of technological progress is essential to be able to optimise funding allocation in adopting the right platform of the future.

With the world increasingly moving to a 24/7/365 trading place, banks and businesses alike need to keep up like never before, advises Thanthrige. "Legacy technology cannot deliver in this world, so we are making sure our own systems are constantly gearing up to meet our clients' needs," he notes. "With different sectors and geographies, come different requirements. We are taking a holistic view so that the best of all worlds is shared through technology, creating network interoperability and ultimate flexibility for our clients to better service their clients."

The later digital engagement is left, the longer the journey to the forefront will be. But it should be clear by now that by keeping pace with progress and finding the right time to leap aboard, treasurers in APAC, and indeed all other regions, have an opportunity to help deliver a stronger bottom line and a more competitive business for the future.

View the previous article in this series:

tiny.cc/ce3yuz